

deemed distributed by trust in preceding years for provisions that no refund or credit be allowed to a trust for any preceding taxable year by reason of a distribution deemed to have been made by such trust in such year under section 666 or 669 and that there be allowed as a credit against the tax imposed by this subtitle on the beneficiary an amount equal to the amount of the taxes deemed distributed to such beneficiary by the trust under sections 666(b) and (c) and 669(d) and (e) during preceding taxable years of the trust on the last day of which the beneficiary was in being, reduced by the amount of the taxes deemed distributed to such beneficiary for such preceding taxable years to the extent that such taxes are taken into account under sections 668(b)(1) and 669(b) in determining the amount of the tax imposed by section 668. See section 666(e) of this title.

1969—Subsec. (a). Pub. L. 91-172 incorporated existing provisions of first sentence in provisions designated as subsec. (a), included distributions made under section 669 of this title, and struck out provisions for credit of taxes imposed on the trust against tax of beneficiary. See subsec. (b) of this section.

Subsec. (b). Pub. L. 91-172 incorporated provision of first sentence for credit of taxes imposed on the trust against tax of beneficiary, and provided for interest free credit and method of computation of its amount. The second sentence had provided that the amount of taxes which may not be refunded or credited to the trust shall be an amount equal to the excess of (1) the taxes imposed on the trust for any preceding taxable year (computed without regard to the accumulation distribution for the taxable year) over (2) the amount of taxes for such preceding taxable year imposed on the undistributed portion of distributable net income of the trust for such preceding taxable year after the application of this subpart on account of the accumulation distribution determined for such taxable year.

#### Statutory Notes and Related Subsidiaries

##### EFFECTIVE DATE OF 1986 AMENDMENT

Amendment by Pub. L. 99-514 applicable to taxable years beginning after Dec. 31, 1986, see section 151(a) of Pub. L. 99-514, set out as a note under section 1 of this title.

##### EFFECTIVE DATE OF 1978 AMENDMENT

Amendment by section 701(q)(1)(B), (C) of Pub. L. 95-600 applicable to distributions made in taxable years beginning after Dec. 31, 1975, see section 701(q)(3)(A) of Pub. L. 95-600, set out as a note under section 665 of this title.

Pub. L. 95-600, title VII, §702(o)(2), Nov. 6, 1978, 92 Stat. 2937, as amended by Pub. L. 99-514, §2, Oct. 22, 1986, 100 Stat. 2095, provided that: "The amendment made by paragraph (1) [amending this section] shall apply—

"(A) in the case of the tax imposed by chapter 11 of the Internal Revenue Code of 1986 [formerly I.R.C. 1954, section 2001 et seq. of this title], to the estates of decedents dying after December 31, 1979, and

"(B) in the case of the tax imposed by chapter 13 [section 2601 et seq. of this title], to any generation-skipping transfer (within the meaning of section 2611(a) of such Code) made after June 11, 1976."

Pub. L. 95-600, title VII, §701(r)(2), Nov. 6, 1978, 92 Stat. 2911, provided that: "The amendment made by paragraph (1) [amending this section] shall apply to distributions made in taxable years beginning after December 31, 1975."

##### EFFECTIVE DATE OF 1977 AMENDMENT

Amendment by Pub. L. 95-30 applicable to taxable years beginning after Dec. 31, 1976, see section 106(a) of Pub. L. 95-30, set out as a note under section 1 of this title.

##### EFFECTIVE DATE OF 1976 AMENDMENT

Pub. L. 94-455, title VII, §701(h), Oct. 4, 1976, 90 Stat. 1580, provided that: "The amendments made by sub-

sections (a), (b), (c), (d), and (f) of this section [amending this section and sections 665, 666, 1302, and 6401 of this title and repealing sections 668 and 669 of this title] shall apply to distributions made in taxable years beginning after December 31, 1975. The amendments made by subsection (e) of this section [enacting section 644 of this title and amending section 641 of this title] shall apply to transfers in trust made after May 21, 1976."

##### EFFECTIVE DATE OF 1969 AMENDMENT

Amendment by Pub. L. 91-172 applicable to taxable years beginning after Dec. 31, 1968, see section 331(d) of Pub. L. 91-172, set out as a note under section 665 of this title.

#### § 668. Interest charge on accumulation distributions from foreign trusts

##### (a) General rule

For purposes of the tax determined under section 667(a)—

##### (1) Interest determined using underpayment rates

The interest charge determined under this section with respect to any distribution is the amount of interest which would be determined on the partial tax computed under section 667(b) for the period described in paragraph (2) using the rates and the method under section 6621 applicable to underpayments of tax.

##### (2) Period

For purposes of paragraph (1), the period described in this paragraph is the period which begins on the date which is the applicable number of years before the date of the distribution and which ends on the date of the distribution.

##### (3) Applicable number of years

For purposes of paragraph (2)—

##### (A) In general

The applicable number of years with respect to a distribution is the number determined by dividing—

(i) the sum of the products described in subparagraph (B) with respect to each undistributed income year, by

(ii) the aggregate undistributed net income.

The quotient determined under the preceding sentence shall be rounded under procedures prescribed by the Secretary.

##### (B) Product described

For purposes of subparagraph (A), the product described in this subparagraph with respect to any undistributed income year is the product of—

(i) the undistributed net income for such year, and

(ii) the sum of the number of taxable years between such year and the taxable year of the distribution (counting in each case the undistributed income year but not counting the taxable year of the distribution).

##### (4) Undistributed income year

For purposes of this subsection, the term "undistributed income year" means any prior taxable year of the trust for which there is un-

distributed net income, other than a taxable year during all of which the beneficiary receiving the distribution was not a citizen or resident of the United States.

**(5) Determination of undistributed net income**

Notwithstanding section 666, for purposes of this subsection, an accumulation distribution from the trust shall be treated as reducing proportionately the undistributed net income for undistributed income years.

**(6) Periods before 1996**

Interest for the portion of the period described in paragraph (2) which occurs before January 1, 1996, shall be determined—

(A) by using an interest rate of 6 percent, and

(B) without compounding until January 1, 1996.

**(b) Limitation**

The total amount of the interest charge shall not, when added to the total partial tax computed under section 667(b), exceed the amount of the accumulation distribution (other than the amount of tax deemed distributed by section 666(b) or (c)) in respect of which such partial tax was determined.

**(c) Interest charge not deductible**

The interest charge determined under this section shall not be allowed as a deduction for purposes of any tax imposed by this title.

(Added Pub. L. 94-455, title X, §1014(b), Oct. 4, 1976, 90 Stat. 1617; amended Pub. L. 101-508, title XI, §11802(f)(3), Nov. 5, 1990, 104 Stat. 1388-530; Pub. L. 104-188, title I, §1906(a), Aug. 20, 1996, 110 Stat. 1914.)

**Editorial Notes**

**PRIOR PROVISIONS**

A prior section 668, acts Aug. 16, 1954, ch. 736, 68A Stat. 225; Oct. 16, 1962, Pub. L. 87-834, §7(d), 76 Stat. 986; Dec. 30, 1969, Pub. L. 91-172, title III, §331(a), 83 Stat. 594, related to treatment of amounts deemed distributed in preceding years, prior to repeal by Pub. L. 94-455, title VII, §701(a)(3), Oct. 4, 1976, 90 Stat. 1577. See section 667 of this title.

**AMENDMENTS**

1996—Subsec. (a). Pub. L. 104-188 reenacted heading without change and amended text generally. Prior to amendment, text read as follows: “For purposes of the tax determined under section 667(a), the interest charge is an amount equal to 6 percent of the partial tax computed under section 667(b) multiplied by a fraction—

“(1) the numerator of which is the sum of the number of taxable years between each taxable year to which the distribution is allocated under section 666(a) and the taxable year of the distribution (counting in each case the taxable year to which the distribution is allocated but not counting the taxable year of the distribution), and

“(2) the denominator of which is the number of taxable years to which the distribution is allocated under section 666(a).”

1990—Subsec. (c). Pub. L. 101-508 substituted heading for one which read “Special rules” and amended text generally, restating provisions of former par. (1) as entire subsection and striking out former par. (2) which provided that for purposes of this section, undistributed net income existing in a trust as of January 1, 1977, would be treated as allocated under section 666(a)

to the first taxable year beginning after December 31, 1976.

**Statutory Notes and Related Subsidiaries**

**EFFECTIVE DATE OF 1996 AMENDMENT**

Pub. L. 104-188, title I, §1906(d)(1), Aug. 20, 1996, 110 Stat. 1916, provided that: “The amendment made by subsection (a) [amending this section] shall apply to distributions after the date of the enactment of this Act [Aug. 20, 1996].”

**EFFECTIVE DATE**

Pub. L. 94-455, title X, §1014(d), Oct. 4, 1976, 90 Stat. 1617, provided that: “The amendments made by this section [enacting this section and amending section 667 of this title] shall apply to taxable years beginning after December 31, 1976.”

**SAVINGS PROVISION**

For provisions that nothing in amendment by Pub. L. 101-508 be construed to affect treatment of certain transactions occurring, property acquired, or items of income, loss, deduction, or credit taken into account prior to Nov. 5, 1990, for purposes of determining liability for tax for periods ending after Nov. 5, 1990, see section 11821(b) of Pub. L. 101-508, set out as a note under section 45K of this title.

**[§ 669. Repealed. Pub. L. 94-455, title VII, § 701(d)(1), Oct. 4, 1976, 90 Stat. 1578]**

Section, acts Oct. 16, 1962, Pub. L. 87-834, §7(e), 76 Stat. 986; Dec. 30, 1969, Pub. L. 91-172, title III, §331(a), 83 Stat. 596, related to the treatment of capital gain deemed distributed in preceding years.

**Statutory Notes and Related Subsidiaries**

**EFFECTIVE DATE OF REPEAL**

Repeal applicable to distributions made in taxable years beginning after Dec. 31, 1975, see section 701(h) of Pub. L. 94-455, set out as an Effective Date of 1976 Amendment note under section 667 of this title.

**SUBPART E—GRANTORS AND OTHERS TREATED AS SUBSTANTIAL OWNERS**

**Sec.**

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| 671. | Trust income, deductions, and credits attributable to grantors and others as substantial owners. |
| 672. | Definitions and rules.   |
| 673. | Reversionary interests.  |
| 674. | Power to control beneficial enjoyment.   |
| 675. | Administrative powers.   |
| 676. | Power to revoke.   |
| 677. | Income for benefit of grantor.   |
| 678. | Person other than grantor treated as substantial owner.  |
| 679. | Foreign trusts having one or more United States beneficiaries.                                   |

**Editorial Notes**

**AMENDMENTS**

1976—Pub. L. 94-455, title X, §1013(e)(1), Oct. 4, 1976, 90 Stat. 1616, added item 679.

**§ 671. Trust income, deductions, and credits attributable to grantors and others as substantial owners**

Where it is specified in this subpart that the grantor or another person shall be treated as the owner of any portion of a trust, there shall then be included in computing the taxable income and credits of the grantor or the other person